

Comments of
The National Association of Manufacturers
Submitted to the Senate Finance Committee
Individual Tax Reform Working Group
April 15, 2015

I. Introduction

The National Association of Manufacturers (NAM) welcomes the opportunity to submit comments to the Senate Finance Committee Individual Tax Reform Working Group.

The NAM is the largest manufacturing association in the United States, representing manufacturers of all sizes in every industrial sector and in all 50 states. Manufacturing employs nearly 12 million men and women, contributes more than \$1.8 trillion to the U.S. economy annually, has the largest economic impact of any major sector and accounts for three-quarters of private-sector research and development.

NAM members know firsthand that our current tax system is fundamentally flawed and discourages economic growth and U.S. competitiveness. As outlined in the NAM's [A Growth Agenda: Four Goals for a Manufacturing Resurgence in America](#), a key objective for the association is to create a national tax climate that promotes manufacturing in America and enhances the global competitiveness of manufacturers in the United States. A pro-manufacturing tax policy must acknowledge that a high tax burden makes manufacturers in the United States less competitive.

To achieve these goals, we need a comprehensive tax reform plan that both reduces the corporate tax rate to 25 percent or lower and includes lower rates for the nearly two-thirds of manufacturers organized as flow-through entities. We also believe that comprehensive tax reform must include a shift from the current worldwide system of taxation to a modern and competitive international tax system, a permanent and strengthened research and experimentation (R&E) incentive and a strong capital cost-recovery system.

The NAM very much appreciates the current focus on improving our nation's tax system. Enactment of a pro-growth, pro-manufacturing tax reform plan will go a long way to strengthen our economy and ensure vibrant economic growth in the future. [A Missed Opportunity: the Economic Cost of Delaying Pro-Business Tax Reform](#), a study released by the NAM in January 2015, takes a close look at the economic impact of enacting a five-prong pro-business tax package similar to NAM's priorities and concludes that lack of action on pro-business tax reform is costing the U.S. economy in terms of slower growth in Gross Domestic Product (GDP), investment and employment. In contrast, the report finds that over a ten-year period, a pro-business tax plan would increase GDP over \$12 trillion relative to CBO projections, increase investment by over \$3.3 trillion and add over 6.5 million jobs to the U.S. economy.

The following comments reflect NAM Board-approved [policy](#) on tax reform and are based on the premise that any changes would be part of a comprehensive tax reform plan.¹

II. Manufacturing's Small and Medium-Sized Businesses

Manufacturers organized as flow-through entities—generally, small and medium-sized businesses—pay taxes at individual rates. Moving forward, any discussion about reforming the tax code must ensure that tax reform includes parallel benefits for these manufacturers that play a critical role in the supply chain and broader economy.

For more than 60 years, manufacturers and other business owners have chosen to organize as S-corporations or other flow-through entities to benefit from comprehensive liability protection and a single level of federal taxation. According to IRS data, between 1980 and 2008, the total number of flow-through businesses more than tripled to nearly 31 million, employing an estimated 54 percent of the entire private-sector workforce.²

Manufacturing is a capital intensive industry and, in smaller companies, the capital to grow and expand operations, increase product lines and hire additional workers most often comes directly from the owners. Thus, the tax treatment of flow-through businesses impacts the decisions and the ability of small and medium-sized manufacturers to hire and retain workers and reinvest in their companies. Consequentially, Congress must consider the unique impact that individual tax rates and specific types of base broadening could have on these smaller manufacturers and ensure that tax reform does not increase the tax burden on these companies to pay for other tax reform measures.

It also is important to point out that while many small and medium-sized manufacturers will benefit from the enhanced Section 179 proposal, pass-through companies, like their corporate peers, need thoughtful tax reform that includes both a lower tax rate and a strong capital cost-recovery system. It is essential to consider the impact of all the tax changes on the ability of these small and medium-sized manufacturers to compete, invest and grow.

III. Conclusion

The NAM wants the United States to be the best place in the world to manufacture and attract foreign direct investment. Thus, manufacturers very much appreciate the efforts of Chairman Hatch, Ranking Member Wyden and the members of the Senate Finance Committee for their diligent work to reform the U.S. tax system. Manufacturers thank you for the opportunity to share our thoughts and concerns with you.

While the NAM strongly advocates for comprehensive reform of our current tax code, we also believe that it is important to keep our current tax system in place until policymakers agree on a final comprehensive reform plan. Piecemeal changes or repeal of longstanding rules will inject more uncertainty into business planning, making U.S. companies even less competitive, and threaten economic growth and U.S. jobs.

¹ See also [NAM Comments on Camp Discussion Draft, August 2014](#)

² Robert Carroll and Gerald Prante, *The Flow-Through Business Sector and Tax Reform: The Economic Footprint of the Flow-Through Sector and the Potential Impact of Tax Reform*, April 2011.

Manufacturers look forward to further discussing these issues with you and working with the Individual Tax Reform Working Group and the rest of the Committee to achieve a pro-growth, pro-competitiveness and pro-manufacturing tax system.